Universities strongly oppose any expansion of the prior user rights defense in patent reform legislation. Prior user rights provide a defense against patent infringement in certain circumstances for products or processes developed under trade secret procedures. Under current law, prior user rights apply only to business methods; if a patent has been granted for a business method that is functionally comparable to a pre-existing business method developed under trade secret procedures, prior user rights provide a defense against infringement for the method developed as a trade secret. Arguments have been advanced that if the U.S. patent system is to transition from a first-to-invent (FTI) to a first-inventor-to-file (FITF) process for determining patent priority, the prior user rights defense should be expanded to cover essentially all products and processes developed as trade secrets, thereby providing them with a categorical defense to infringement of patents.

Universities believe that expanding prior user rights is an unwise expansion of immunity from the assertion of patent rights. Such an expansion would degrade the patent system overall by substantially reducing patent certainty, and it would seriously impair the process by which universities transfer their discoveries into the commercial sector for development. That impairment would reduce the innovative capacity of the nation and diminish our economic competitiveness, weakening one of the key ingredients needed for economic recovery.

There is no apparent reason why adoption of the FITF system should call for such expansion; expanding prior user rights would be bad patent policy and bad public policy under both the FTI and FITF systems. Over the six-year effort to reform U.S. patent law, every House and Senate legislative proposal has included the adoption of a FITF system, and every proposal for an expansion of prior user rights has been rejected.

The patent system is premised on a quid pro quo of granting monopoly rights to an invention in return for disclosure to the public of information about that invention. An expansion of prior user rights would have the effect of elevating trade secrets over disclosure. Enhanced ability to withhold information about new technologies would subvert the purposes of the patent system and spur costly litigation in cases where an infringer invokes a prior user rights defense.

Some proposals to expand prior user rights suggest a legislative “carve-out” for university patents. This would be of only limited benefit to universities, even if the carve-out continued to adhere to patents licensed to private sector companies. A broad expansion of prior user rights would still fracture the complex chain of interactions necessary for the successful translation of early-stage discoveries into products and processes that benefit society. Moreover, certainty of all patents would be weakened by the prospect of massively expanded trade-secret product and process immunity.
Productive technology transfer occurs through licensing university discoveries to the commercial sector, from pharmaceutical and biotechnology companies to information technology companies to defense industries and more. Many of these companies are large, well-established firms that intermingle university patents with their own patents in developing new products. The commercial prospects for those products would be at risk with the expansion of prior user rights, even with a university carve-out, since it would increase the vulnerability of non-exempt patents to assertions of prior use. The readiness of those companies to license university patents as part of such intermingled packages of patents would be diminished accordingly.

Much of the innovation fostered by university research comes through the creation of new start-up companies. Like larger, established firms, many of these new start-ups also develop their own intellectual property in addition to that licensed from universities, but unlike established firms, they are dependent on raising venture capital to become established. The specter of trade secret products or processes with immunity from patent rights would increase the uncertainty of the IP portfolios of these emerging companies, increasing the difficulty of attracting venture capital.

University technology transfer occurs through a variety of mechanisms, one of the most important of which is academic publishing. University researchers actively publish their research findings, including discoveries that could prove to be patentable inventions. Such results often are published well in advance of applying for patents on inventions arising from that research. Expansion of prior user rights creates a powerful disincentive to publish potentially patentable research results. While the effective grace period included in S. 23 and prior House patent reform bills would encourage publication by protecting inventors from others patenting their inventions, expanded prior user rights would have exactly the opposite effect: early publication could permit others to prepare a competing trade secret product that would be immune from a charge of infringement of a patented product or process emerging from that published research.

The impact of expanded prior user rights is clear: the expansion of trade secret immunity through expansion of prior user rights would impair university transfer of discoveries to the commercial sector for development, diminish the ability of start-ups to raise venture capital, and stifle academic publishing. The cumulative impact of these effects would weaken the nation’s innovative capacity at precisely the time when the nation needs a robust innovative capacity to create jobs and fuel economic recovery.

Companies should be free to choose to develop products via a trade secret route, but they should do so with a clear understanding of the risks and benefits. They should not be granted the broad immunity from patent infringement that an expanded prior user rights defense would create. Trade secret protection should not be elevated above the incentive to invent provided by patent protection and the broad public benefits derived from the transparency of patent disclosure.

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